Leading conglomerates see big gains on bottom lines

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(Pillsbury has been eying Diversifoods and Jerrico as possible acquisition candidates.)

• PepsiCo, showing rapid profit gains from Pizza Hut and Taco Bell, is pushing a blossoming 50-unit Boulangerie bakery-sandwich chain as a developing food-service vehicle and has just acquired the 45-unit Golden Bear family-restaurant chain to further widen Pizza Hut's Midwest presence.

• W. R. Grace , slower than others on the restaurants' bottom line, is acquiring the Casa Maria and Charley Brown's dinnerhouses to go respectively with its El Torito Mexican dinnerhouses and Far West dinnerhouses. Grace also has just moved to purchase a 49% interest in the San Francisco-based Bravo Fono premium ice cream chain.

• General Mills (a partial exception to the "rule" of not starting one's own new concept) is trying a new Choices Midwest family steakhouse with a wider-based menu as a potential successor to York family houses, is testing three Olive Garden restaurants in Orlando and is carrying out a $104 million two-year remodeling program to put mesquite grills, oyster bars and other new touches in its Red Lobster seafood dinnerhouses.

• International Multifoods, with more than 1,000 Mr. Donut shops, has become a major franchisee of the Nankin Express Chinese fast-food chain and is accelerating its all-you-can-eat Boston Sea Party dinnerhouses while testing Pasta Galley fast-food units.

These efforts highlight a new striving by some of the conglomerates to boost their presence, diversity, share of market and—most of all—profits in restaurant commitments. Yet there are still serious questions about whether the large corporations can wield enough individual entrepreneurial flair and flexibility to succeed with a multitude of chains.

While fast-food chain acquisitions are yielding much higher ROI's, the ventures into dinnerhouses have generally posed far more of a challenge to large corporations in terms of generating real growth and quality, beyond more and more acquisitions and constant expansion. In many ways the conglomerates are "prisoners" of the chains they own. Performance rides entirely on how the chains are doing in their own individual segments, rather than on any magic wand or money bag that a conglomerate can produce.

Those conglomerates that are showing increased restaurant profits are exercising a decentralized approach with the authority vested in each chain or in the "entrepreneur" directing that chain.

"Pillsbury is relying very heavily in our corporate strategic plans on the continued growth of our restaurants under decentralized management," declared Pillsbury Co. vice chairman Winston Wallin. Jeffrey Campbell, Burger King chairman and ceo, and Michael Jenkins, new S&A Restaurants ceo, report to Wallin.

Pillsbury's restaurant division's net profits for its first quarter, ended Aug. 31, soared 28%. This followed a fiscal year in which the restaurant division—sparked by Burger King—surged 38%, to $187 million, in operating profits. Burger King, which has just signed to operate food-service units at 185 European military bases, led the way with comparative domestic sales rises as high as 26% and average unit sales nearing $1 million while Steak & Ale was up almost 15%, to $1.45 million, and Bennigan's was flat at $2.3 million.

"Yes, we are flat at Bennigan's," Wallin conceded, "and we may stay flat. But that's a heckuva high level to achieve in the first place."

PepsiCo scored a 19% operating profit rise, to $121.6 million, on a 23% revenue increase, to $1.25 billion, for its Pizza Hut and Taco Bell chains and the small Boulangerie chain for the nine months ended Sept. 30. "Taco Bell actually showed the fastest profit growth," a spokesman said.

W. R. Grace's restaurant group is showing steady profit increases in its various divisions, but on a far smaller scale than the other conglomerates' restaurant holdings. Grace's group showed a 27% operating profit increase, to $4.8 million, for its latest quarter, ended Sept. 30. But $3 million of this was derived from Grace's 74% ownership of El Torito Mexican dinnerhouses, which achieved a $4.045 million net profit. Thus, the profits are very marginal at most of Grace's other restaurant holdings.

"All our divisions, including fast food, were up and were profitable," declared Grace restaurant group strategic planning and marketing vice president Robert Schmidt at the group's Irvine, Calif., headquarters. It is believed that the fledgling fast-food division of Del Taco (now Del Taco Mexican Cafes) and T. J. Applebee's "adult fast feeders" previously were in the red.

Grace should top $800 million in total restaurant sales this year, but some consider its endless mix of diverse restaurants a handicap in terms of control and quality.

Lobbyists brace for onslaught

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etbook issues as business meal deductions, Federal minimum wage policy, tip reporting relief proposals and the fate of the Targeted Jobs Tax Credit program, next week's election could mark a turning point for food-service operators and employees alike.

Don't look to industry groups such as the National Restaurant Association, the Foodservice and Lodging Institute or the International Franchise Association to offer any detailed advice on who to vote for next week, however.

Given the complex nature of the issues facing the next Congress, political party affiliations may not provide much guidance to food-service operators seeking to support "pro-industry" candidates.

Although Republicans are more likely to side with the restaurant industry on tax and labor issues, Democrats have aligned with food-service groups in other critical legislative areas recently.

In the final analysis, the only real guideposts available to restaurateurs for selecting the next Congress are the positions of individual candidates on issues of critical importance to the industry.

Fortunately, those issues are easy to pinpoint even before the elections. Here's what the next Congress will decide:

• Business meal tax deductions—the old "three-martini lunch" issue will roar back to life early next year as Congress scrambles for ways to reduce the bulging Federal deficit.

• Targeted Jobs Tax Credits—another potential victim of Congressional budget cutters in 1985. The program, which offers Federal wage subsidies to employers of newly hired disadvantaged workers, has produced multimillion dollar payroll cost relief to many large food-service chains.

• Tax increase/"reform" proposals—no matter who wins next week's Presidential election, some form of tax increase to trim the Federal deficit appears inevitable. Proposals already on the table range from Walter Mondale's plan for a business tax surcharge and higher income-tax rates for the "rich," to higher Federal excise taxes on liquor, beer and wine.

• Fringe benefit taxes—this year Congress opened the door a crack for IRS to tax employee benefits as wages. The next Congress will be under heavy pressure to go even further.

• The Federal minimum wage—which has remained unchanged at $3.35 per hour since Jimmy Carter was in office. Organized labor is itching to mount a drive to raise the pay floor beyond $5, but probably won't as long as the Republicans control the Senate. Unless the Democrats capture both chambers of Congress next week, look for a continuation of the stalemate.

Buyout may sunder Diversifoods

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rant holdings are the Chart House dinnerhouses, Luther's Bar-B-Que restaurants, Moxie's upscale burger operation and 377 franchised Burger Kings.

Current fiscal year revenues for the whole combine are estimated at $576 million, giving it 19th place in *Nation's Restaurant News*' 1984 ranking of food service's Top 100 companies.

Burger King accounts for about 60% of Diversifoods' operating profit and more than half its revenue. In the past the cash flow from the BK's had been dumped into new concept development and expansion.

But the consensus is that Diversifoods is going to have to fix problems that have disappointingly stalled Godfather's, thus making the Burger Kings and other concepts first choice for the for-sale tags.

The pizza chain hit its stumbling block with its late—and apparently inadequate—deep-dish pan pizza introduction last year. A newer, lighter version isn't expected to help earnings much until 1985.

The reign of the 'Trader' is over

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of 6 with the loss of his left leg, which was amputated because of complications that developed from an illness.

In 1934 Bergeron borrowed $500 to buy two barrels of beer and lease a wooden shack in an obscure part of Oakland, Calif., near the service station he had operated. Hinky Dink's, the original name of his place, showcased its owner's talent for mixing drinks and cooking savory, inventive meals in the manner taught him by his parents.

Singing in a booming voice, telling profane jokes, even plunging an ice pick into his wooden leg to entertain customers, Bergeron created an offbeat reputation for himself and his unconventional restaurant that Depression era San Franciscans embraced.

The name Trader Vic's was supplied by his first wife, Esther Lynn.

His ability to cultivate an affluent clientele was enhanced by a knack for introducing unusual foods and cooking styles to those who craved a taste of the exotic. Green peppercorns, morel mushrooms, kiwi fruit and snow peas are among the items he popularized, all the while opening Western kitchens to the culinary influences of the Orient.

Bergeron is survived by his wife, Helen; sons Victor and Lynn; daughters Jeanne and Yvonne "Bonnie" Bergeron Seely; a stepdaughter, Helen Ann DeWerd, and 12 grandchildren.

Pig Heaven opens in N.Y.

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features a number of popular as well as obscure pork dishes, the restaurant is decorated with hay bales stacked in the corners and loose hay scattered on the floor.

To further emphasize the theme, the rough barnwood paneling has been painted pink, a mural of pigs was commissioned from a French painter, and a 6-ft.-tall plywood pig holding a menu has been set outside the front door as a sort of greeter.

"When you're trying to merchandise something," Schoenfeld says, "having a strong identity is probably the best single asset you can possess."

On the basis of public response so far, that asset could translate into $2 million gross sales during Pig Heaven's first year, he says.

Despite the pig motif and decor, Pig Heaven is ultimately a serious restaurant with a 110-dish menu that rivals in scope and size many of the best Chinese restaurants in New York—an area of the food-service industry both Keh and Schoenfeld are already familiar with.

"Pig Heaven is a Chinese restaurant with a full Chinese menu," Schoenfeld says. "It offers some pork specialties, but also roasted and barbecued meat specialties, seafood specialties and dumpling specialties. It has a very eclectic menu."

But, its numerous selections notwithstanding, there is no mistaking the menu's slant toward pork. First courses are listed under the subtitles "Cold Pig," "Cold No Pig," "Hot Pig," and "Hot No Pig."

Following these are 24 barbecue and pork specials.

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